PERSONAL FINANCIAL PLANNING

Using different financial strategies and tools
to support your personal & professional goals.

Manage Your Money Today
Maximize Your Money in the Future

October 21, 2021
Dr. Rachel Sam's UNIV 100 Class

UNIVERSITY *of* LOUISIANA
LAFAYETTE

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UNIVERSITY of LOUISIANA LAFAYETTE | B.I. Moody III College of Business Administration

A Few Opening Morals

Personal Finance is…personal.

It's about you and not about anyone else.

You have to make it about you and your goals.

A Few Opening Morals

There is no judgment in personal finance.

There is no ego in personal finance.

There is no shame in personal finance.

It's about you and not about anyone else.

A Few Opening Morals

Because personal finance is personal, it is virtually impossible for me to give you any specific advice.

However, there is one word of advice that applies to 99% of people working on their finances:

SAVE

A Few Opening Morals

SAVINGS

INVESTING

OWNERSHIP

WEALTH

A Few Opening Morals

SAVINGS

INVESTING

OWNERSHIP

WEALTH

The average NBA player makes $8.3 million per year and plays for 4.5 years. Within 5 years of retirement, 60% of NBA players are broke.

When LeBron James joined the Los Angeles Lakers, he talked with Magic Johnson about his future, about his legacy and about business opportunities.

Magic's advice was simple: to build enormous wealth, you have to be an owner.

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Owning Your Financial Future

What Are Your Values, Dreams & Goals?

- Education
- Career
- Family

What Is Your Current Situation?

- Education
- Career
- Family
- Financial

Create a Personal Financial Plan for You:

- Investing
- Budgeting
- Debt Management
- Taxes
- Insurance
- Retirement
- Education
- Family
- Business Planning
- Estate Planning
- Philanthropy

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Owning Your Financial Future

Turn to page 5 in the handbook.

What does retirement look like to you? Tell the full story of your retirement…

When do you retire? Where will you live? Who are you with? What do you do?

Think about other issues, such as health, hobbies, work, travel, charity and relationships.

You're young. Retirement may feel like a long time off. But if you can think about what you will need and do in retirement, that can help you design the financial plan that will help you get to retirement – and the financial plan that will help you live the life you want to live.

Owning Your Financial Future

Turn to page 6 in the handbook.

What are the 3 most expensive (or costly) things you plan on buying (or spending money on) in the next 10 years.

For now, exclude your undergraduate education.

But if you're planning on graduate school, do include that.

Or maybe it's a house, a car, a vacation, a baby, a new pair of shoes. Anything.

Owning Your Financial Future

Turn to page 6 in the handbook.

What are the 3 most expensive (or costly) things you plan on buying (or spending money on) in the next 10 years.

We do these thought exercises to begin thinking about how we might make it happen. Yes, we are just making things up in our responses – but that's where planning begins.

For most of us who aren't named Magic or Lebron, owing our financial futures begins with identifying our goals and designing a plan to achieve those goals.

Long-Term Investment Planning

YOUR VALUES

YOUR GOALS

FINANCIAL STRATEGIES

INVESTMENT STRATEGIES

Identify Your Risk Tolerance

Identify Your Time Horizons

Select Investments

Monitor & Modify Investments

Long-Term Investment Planning

FINANCIAL STRATEGIES

INVESTMENT STRATEGIES

Identify Your Risk Tolerance

Identify Your Time Horizons

Select Investments

Monitor & Modify Investments

Long-Term Investment Planning

FINANCIAL GOALS

INVESTMENT STRATEGIES

- Identify Your Risk Tolerance & Priorities
- Identify Your Time Horizons
- Select Investments
- Monitor & Modify Investments

EDUCATION GOALS

EDUCATION STRATEGIES

- Identify Your Risk Tolerance & Priorities
- Identify Your Time Horizons
- Select Your Field, Program, Specialization, Thesis
- Monitor & Modify Your Progress & Plan

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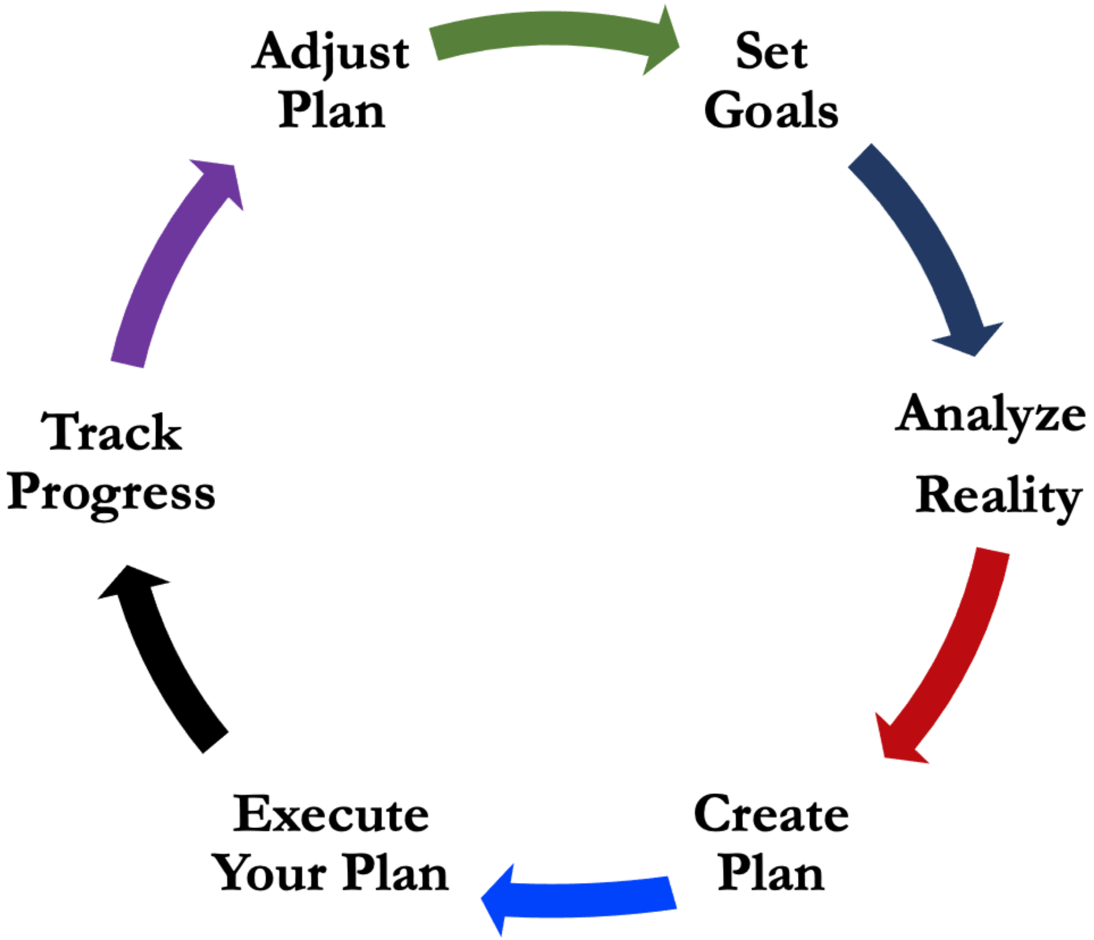

1. **Set your goals.** What do you want to achieve in life? What financial goals will make this happen?
2. **Analyze your reality.** What is your situation? What is your income? What are your expenses? When can you achieve your goals?
3. **Create your plan.** Focus on the short-term – the next 3-6 months – and the long-term – the next 1, 2, 5 and 10 years.
4. **Execute your plan.** Work to decrease your expenses. and to pay off debt. Work to increase your income and your savings.
5. **Track your progress.** How are you doing? Are you ahead of your goals? Are you behind your goals?
6. **Adjust your plan** to reflect your progress, your new reality and any new goals.
7. **Repeat. Revise. Enjoy.**

Isn’t this a lot like what you do with your education planning?

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Long-Term Investment Planning

FINANCIAL GOALS

INVESTMENT STRATEGIES

- Identify Your Risk Tolerance & Priorities
- Identify Your Time Horizons
- Select Investments
- Monitor & Modify Investments

YOU,
as college students,
are better wired
and equipped to
make long-term
plans – education,
career, financial &
otherwise – than
99% of humanity.

Be confident.
Be intentional.
Be diligent.
Be awesome.

EDUCATION GOALS

EDUCATION STRATEGIES

- Identify Your Risk Tolerance & Priorities
- Identify Your Time Horizons
- Select Your Field, Program, Specialization, Thesis
- Monitor & Modify Your Progress & Plan

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Owning Your Financial Future

YOUR VALUES

YOUR GOALS

Education	Career	Family

FINANCIAL STRATEGIES

Investing	Income & Expense Management	Debt Management	Taxes, Insurance & Other

What is INVESTING?

Investing is saving for the future.

- We typically think of investing as long-term – anywhere from 1 or 2 years all the way through retirement.
- Saving vs. Investing
  - Saving can be short-term, Investing is typically long-term.
  - Saving is passive, Investing is dedicated…it could be relatively passive or extremely active.
    - Passive: Mutual funds. Extremely Active: Owning an apartment complex.
  - Saving is typically very low risk, Investing generally has more risk.
  - Saving provides low returns on investment (currently about 0.0%) Inflation is risky…You can lose 100% or realize huge positive returns.

What Is Your Investing Goal?

Take a few seconds to ask yourself:

Why Are You Investing?

What are your investing goals?

To buy a house?

To buy a car?

To pay off debt?

To retire?

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A Few Rules About INVESTING

- Investing is about Trade-Offs. Using money today to get (hopefully more) money in the future:

#1 Which would you rather we give you:

(A) $100 in cash today
(B) $100 in cash in 12 months

#2 Which would you rather we give you:

(A) $100 in cash today
(B) $500 in cash in 12 months

#3 Which would you rather we give you:

(A) $100 in cash today
(B) $120 in cash in 12 months

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A Few Rules About INVESTING

- Risk matters. Know your risk tolerance.
- Goals matter. Be intentional about what you are saving for.
  - Maybe create 3-5 different investment accounts for different goals.
  - This is what I do – I'll show you why in a bit.
- Transaction costs matter. You can pay a lot of fees for not much benefit or service. Be careful.
- Experts rarely have tips or secrets. Investing is about predicting the future, and none of us can predict the future (perfectly). Be careful.
  - If there really were sure-things or get-rich-quick schemes, the experts would be using them themselves, not sharing them with you.
- Communicate with your family. Achieving goals is a family affair.

A Few Rules About INVESTING

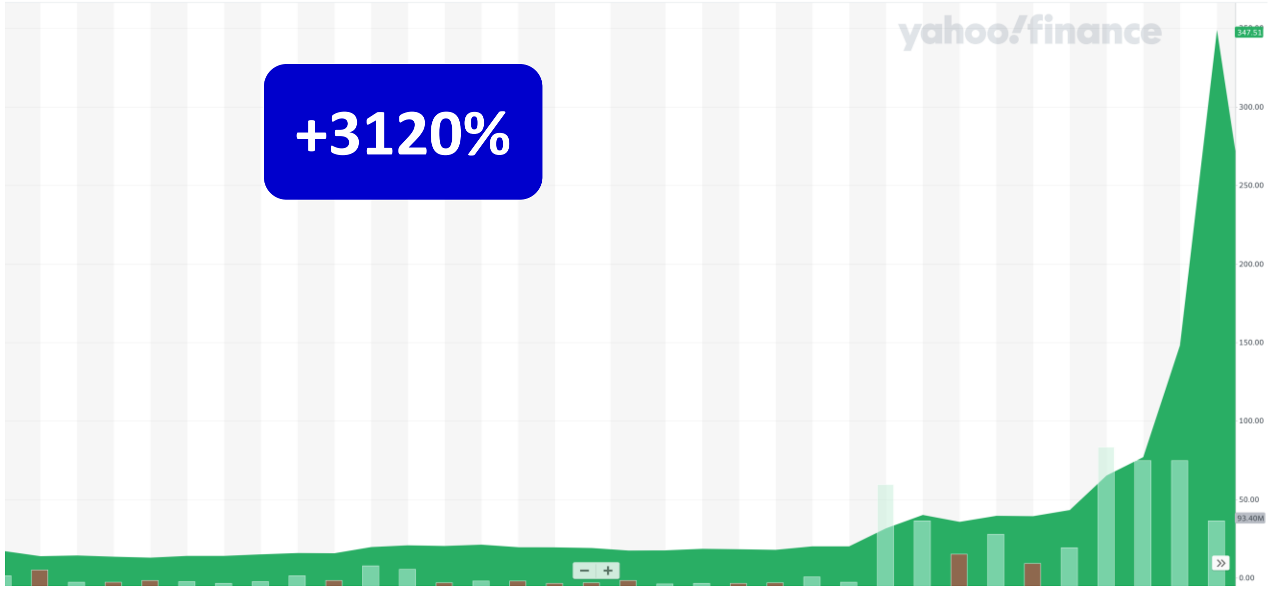
- **Investing lets COMPOUND INTEREST be your friend.**

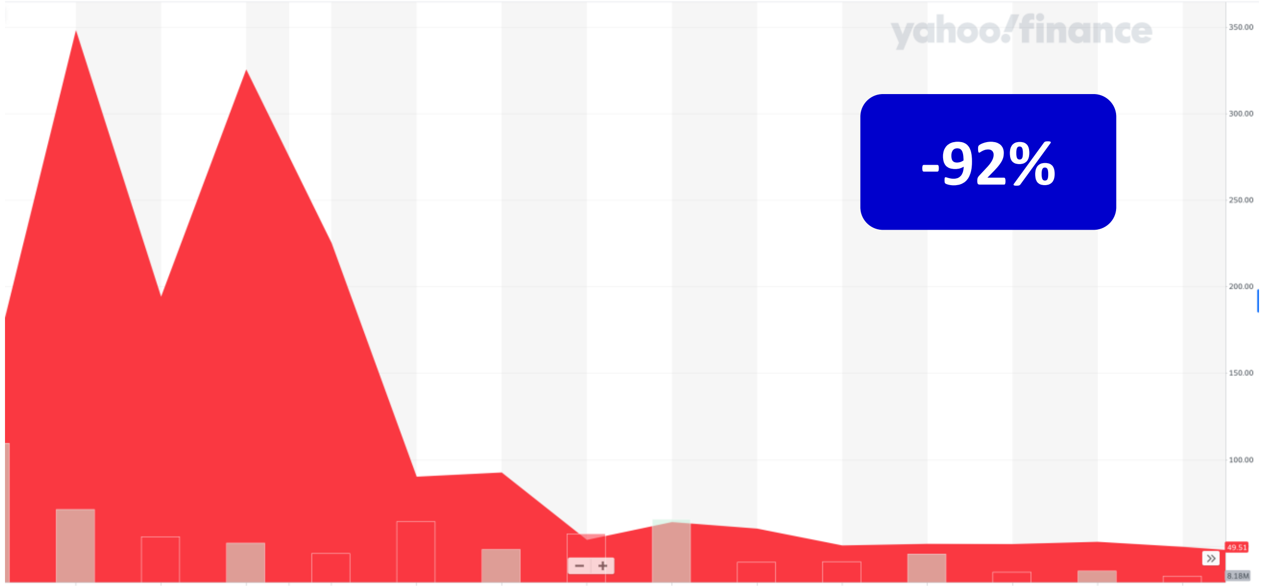
  - With compound interest, your interest earns interest.
  - Without actively making decisions, your money can grow exponentially.

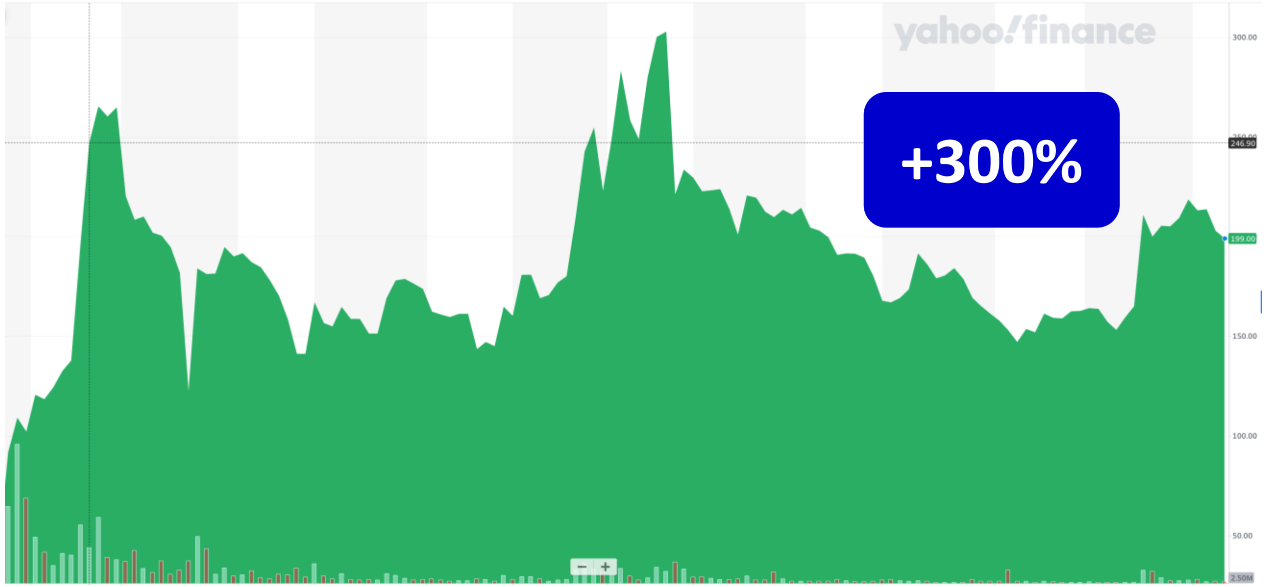
  - Yes, there is risk – the exponential growth rate could be negative.
  - Such risk is greatest if you ‘invest’ over very short periods of time.
  - Historically, over the past 100+ years, if you invest for 5+ years, you have benefited from positive exponential growth.
  - The average return of a common stock over the past 100 years is 10%.
    - The word ’average’ is very important here. But, the good news, we can all achieve ‘average’ returns relatively easily (though they may not be 10% in the future)

A Few Rules About INVESTING

- **Investing lets COMPOUND INTEREST be your friend.**
  - Invest $100 at 10% interest or growth:
  - Year 1: $100 x (1 + 10%) = $110
  - Year 2: $110 x (1 + 10%) = $121
$\$100 \text{ x } (1 + 10\%)^2 = \$121$
  - Year 1: $10 of interest
  - Year 2: $10 of interest on your original $100
+ $1 of interest on year 1 interest







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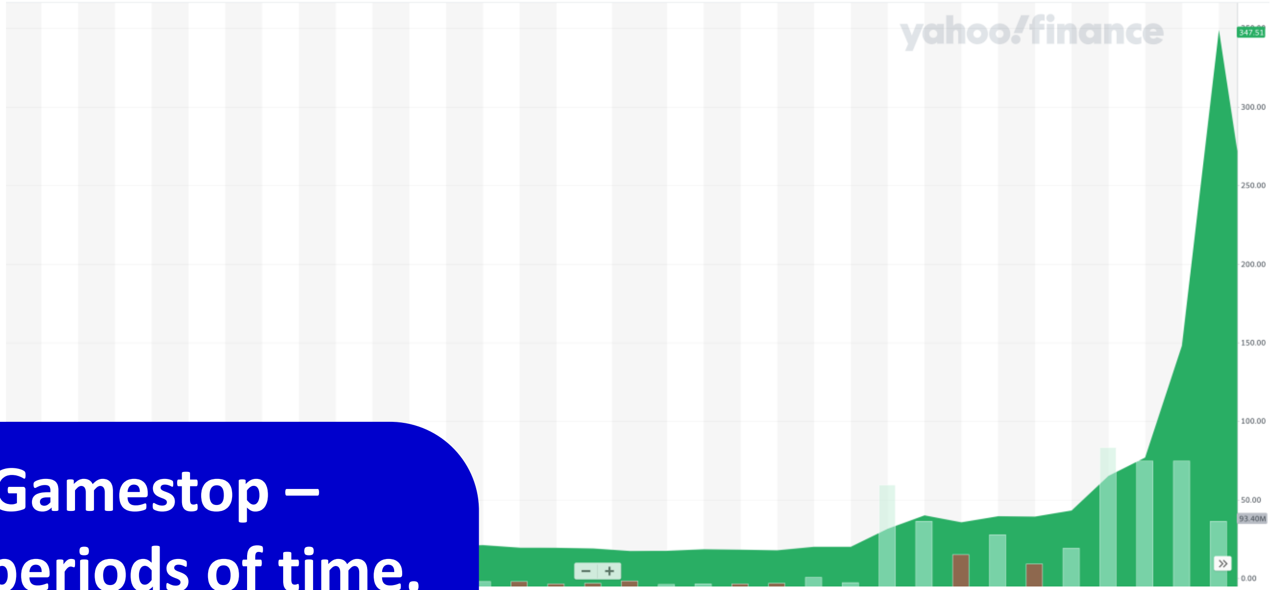

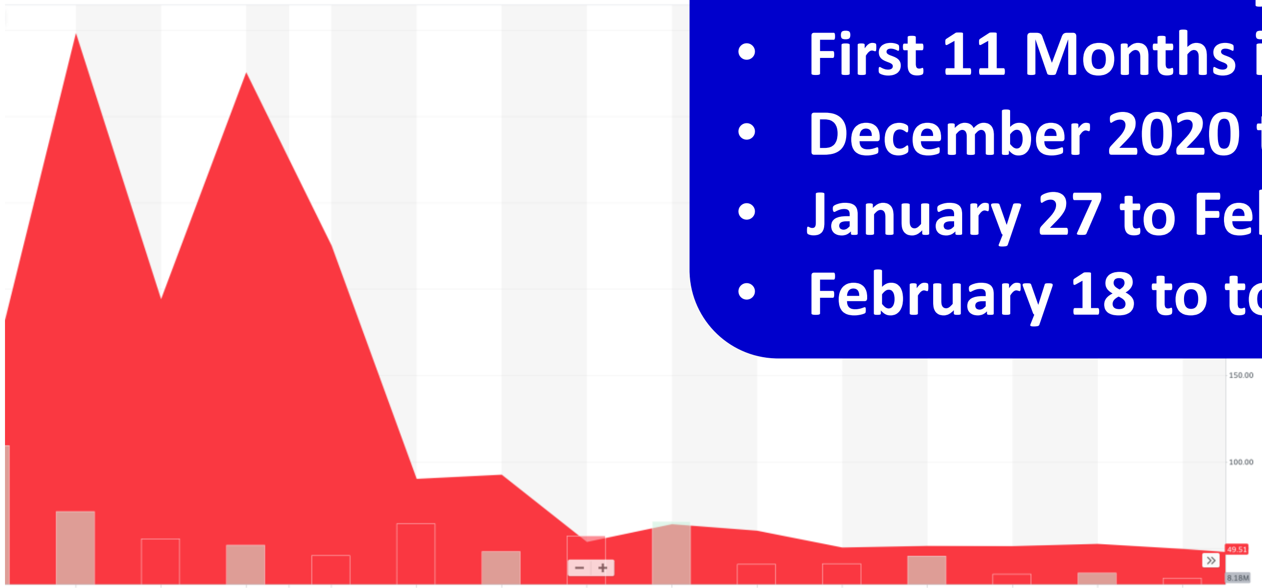

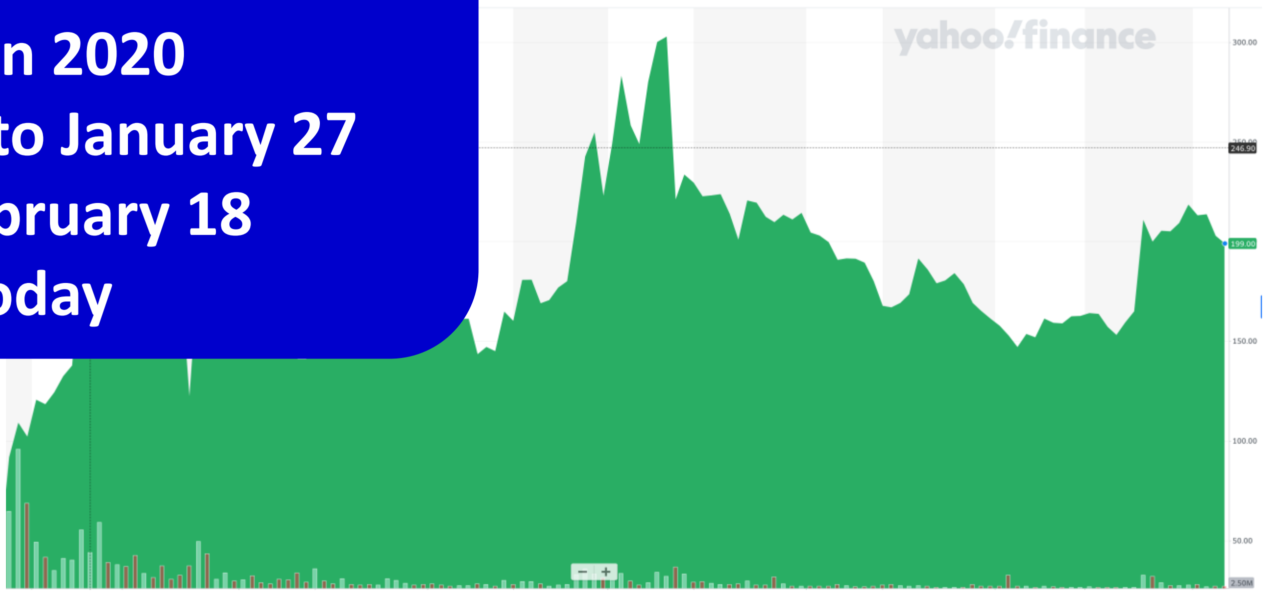

All 4 charts are for Gamestop –
Just over different periods of time.

- First 11 Months in 2020
- December 2020 to January 27
- January 27 to February 18
- February 18 to today

GAMESTOP
From January 2020 to Today

+4000%

If you had invested $100 in Gamestop at the beginning of 2020, that investment would be worth $5000 today.

GAMESTOP

If you had invested $100 in Gamestop on January 26, it would have been worth $8 three weeks later.
It would be worth $45 today.

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Timing Matters

- We could tell similar stories about ups-and-downs for Bitcoin, Tesla, Dogecoin, AMC, Viacom and many other investments

- It is very, very, very, very, very, very, very, very, very, very, difficult to consistently have perfect timing when making investments
  - People who research this phenomenon for a living will tell you it’s impossible

- Do you think you’re unique and that you will be able to consistently time the market so you gain from the up moves and never lose from the down moves?

Expertise Matters

- Take a minute to think about the following question:

  What do YOU do better than 99.9% of humanity?

- Think about what you're studying. Think about what you've been working on for years. Think about what you know that I do not know.

- I've probably only spent 1-2 hours studying what you have dedicated your life to studying and becoming an expert in.

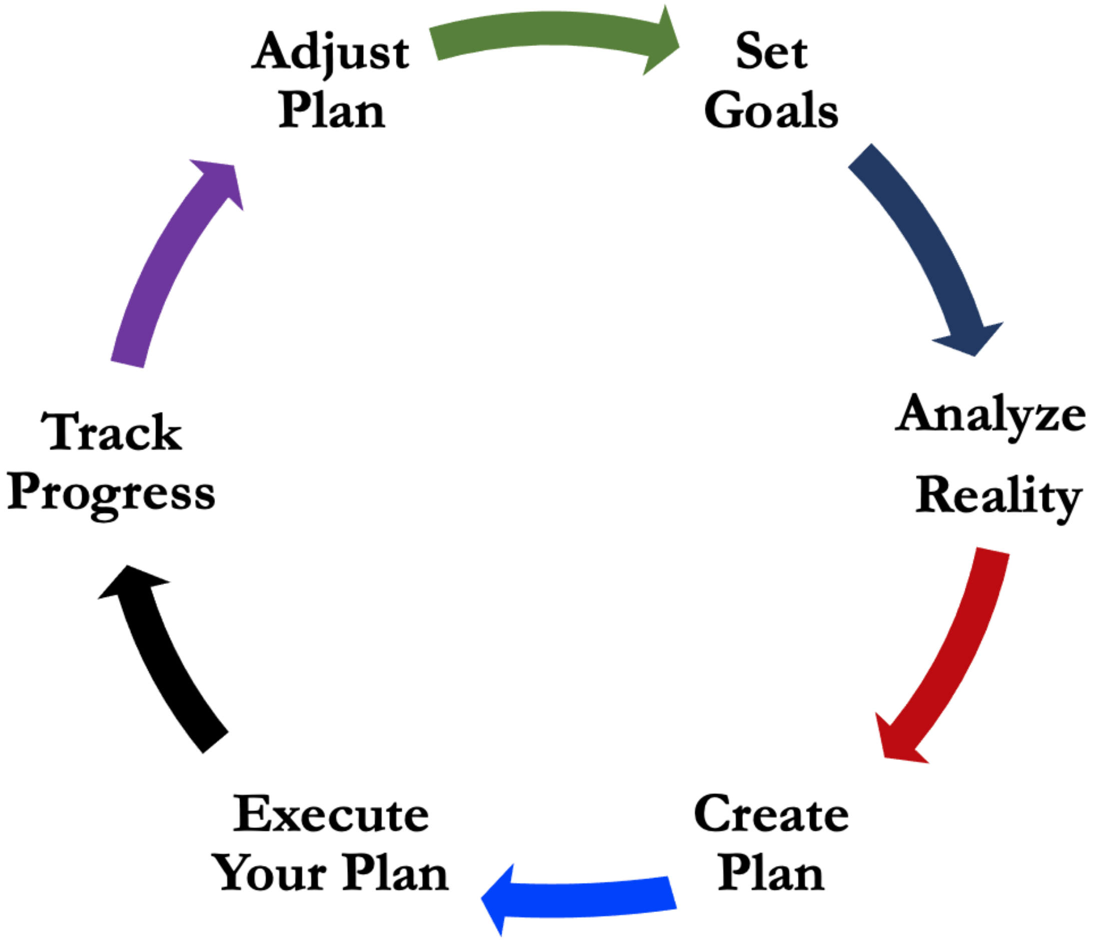
  - Could I do your job as well as you do it?

Expertise Matters

- Of course, I couldn't do your job as well as you.
- Now connect this logic to investing: there are many professionals who have dedicated their lives to making investments. They are good.
  - Yes, there are many amateurs involved in trading stocks – but they (usually) account for a very minor portion of the total money invested.

- Remind yourself of this old gambling maxim:

  When you are sitting at the poker or gambling table, take a look around and see if you can figure out who the sucker is. If you cannot identify who the sucker is, then the sucker is probably you.



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Determining Your Risk Tolerance

High Risk Attitude
I want to summer in Paris and winter in Hawaii

Medium-High Risk Attitude
I will work through normal retirement age, but I want my spouse to retire early - and we want to visit Paris & Hawaii

Medium-Low Risk Attitude
I want my children to have a college education

Low Risk Attitude
I want food on the table and a roof over my head

Determining Your Risk Tolerance

Global Portfolio Allocation Scoring System (PASS) for Individual Investors					
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Earning a high long-term total return that will allow my investments to grow faster than the inflation rate is one of my most important objectives.	5	4	3	2	1
I would like an investment that provides me with an opportunity to defer paying taxes on any gains far into the future.	5	4	3	2	1
I do not need my investments to provide a large amount of current income.	5	4	3	2	1
I am willing to tolerate some sharp down-swings on my investments in order to seek a potentially higher return than would normally be expected from more stable investments.	5	4	3	2	1
I am willing to risk a short-term loss in return for a potentially higher long-run rate of return.	5	4	3	2	1
I am financially able to accept a low level of liquidity in my portfolio; I can wait for several years before needing cash from my investments.	5	4	3	2	1

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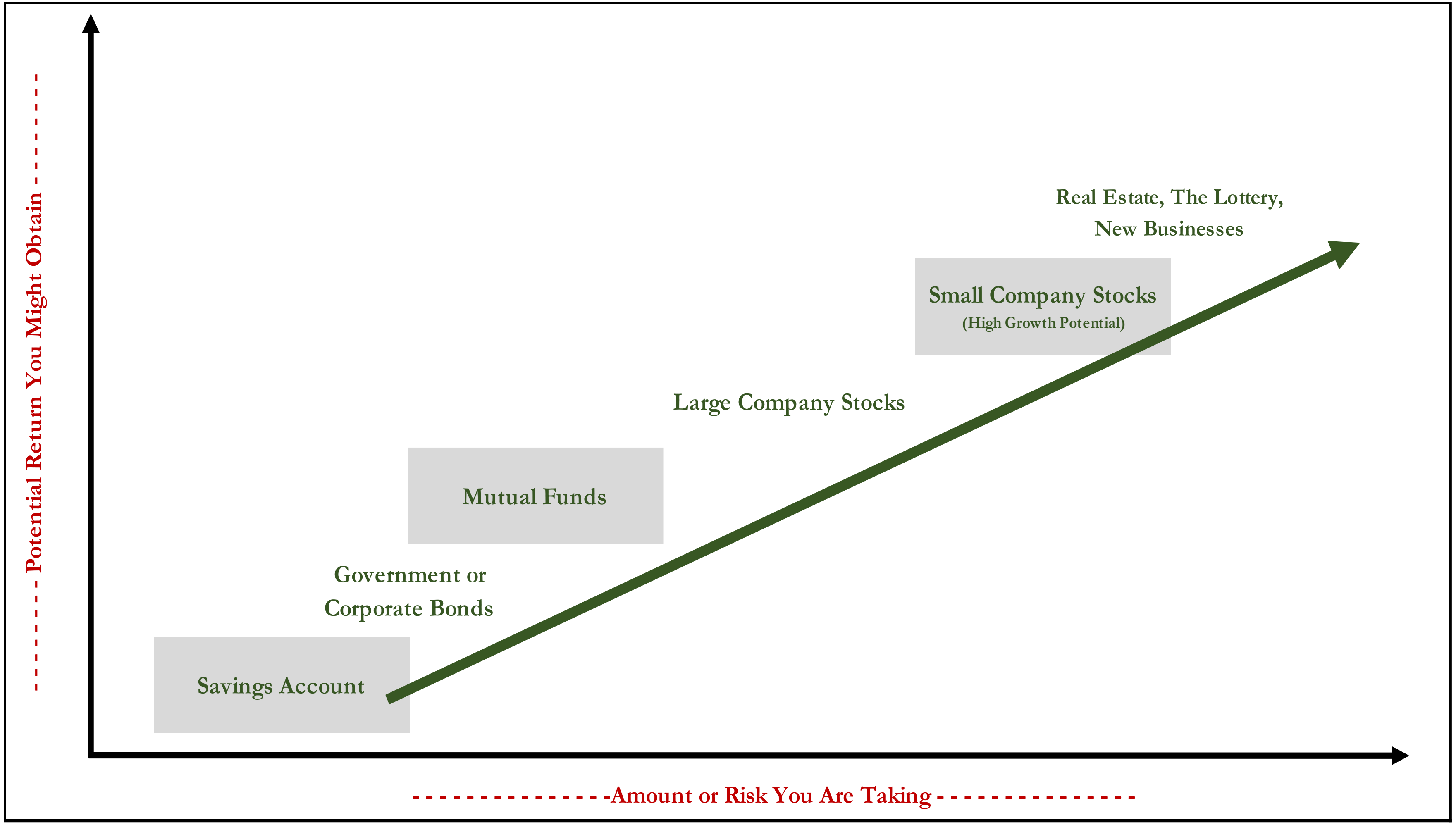
Comparing Different Investments



Comparing Different Investments

What Investment Options Are Available to You?

Type of Investment	Potential Return	Amount of Risk	Comments
Stocks - Large Companies with reliable income	Moderate - Historically 5-8% per year	Moderate. Losses are possible, but should be temporary	Good for long-term investors. Might provide regular income, which you would pay taxes on.
Stocks - Large Companies with less reliable income	Moderate - Historically 7-10% per year	Moderately High. Pretty big losses are possible, but should be temporary	Good for long-term investors. Probably do not provide regular income - you only get income when you sell.
Stocks - Smaller Companies with high potential for growth	High - Historically 10-12% per year	High. Pretty big losses are possible, but should be temporary	Good for long-term investors. Probably do not provide regular income - you only get income when you sell.
Bonds - Corporate	Moderate - Historically 3-6% per year	Moderately low. Losses are unlikely.	Good for long-term investors. Will provide regular income, which you would pay taxes on.
Bonds - Government	Moderate - Historically 1-5% per year	Low. Losses are unlikely. You will get your money back.	Good for short- and long-term investors. Will provide regular income, but you won't pay taxes.
Mutual Funds - Either Stocks or Bonds	Moderate - Could be as low as 3-4% or over 10%.	Moderate. Huge gains are unlikely, losing everything is unlikely.	Mutual funds pool money to make lots of investments; your risk is lower but won't own any specific company.
Real Estate	Who knows? Nobody knows.	Very High. Be prepared for anything.	Very sensitive to the overall economy. And the entry price can be very high.
Yourself + Your Education	Enormous	Very low if you work hard. Very high if you're lazy.	Without question, the best investment you can make. You get to determine how much this investment pays off.
The Lottery	Negative	Very High	See the next Chapter - You should expect to lose all of your money.

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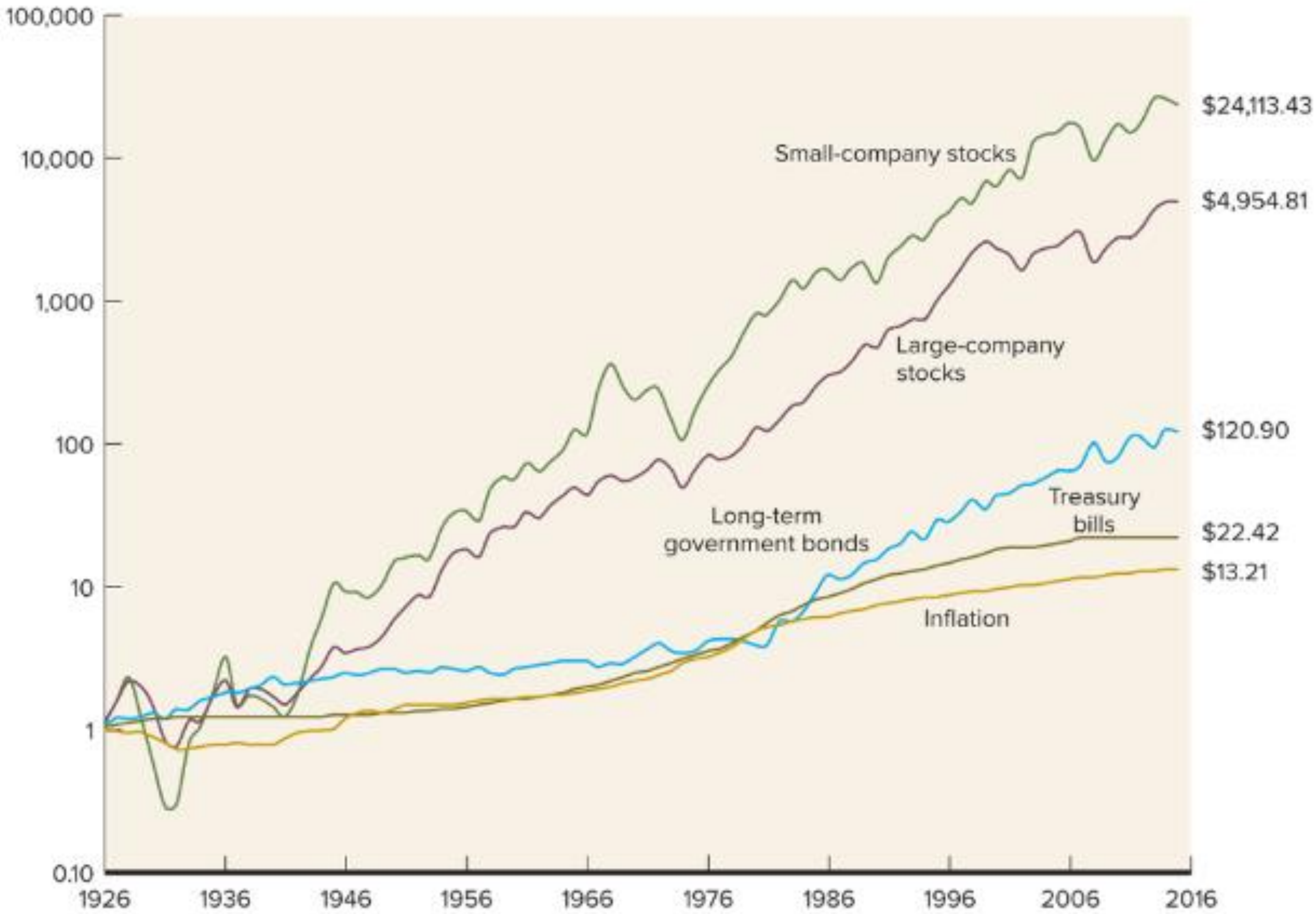
Comparing Different Investments



The Magic of Compound Returns

How Much Will You Have By Saving or Investing Annually for 10 Years?

Interest Rate on Savings or Rate of Return on Investments	Savings Amount per Year				
	$1,000	$2,000	$3,000	$4,000	$5,000
1%	$10,462	$20,924	$31,387	$41,849	$52,311
2%	$10,950	$21,899	$32,849	$43,799	$54,749
3%	$11,464	$22,928	$34,392	$45,856	$57,319
4%	$12,006	$24,012	$36,018	$48,024	$60,031
5%	$12,578	$25,156	$37,734	$50,312	$62,889
6%	$13,181	$26,362	$39,542	$52,723	$65,904
7%	$13,816	$27,633	$41,449	$55,266	$69,082
8%	$14,487	$28,973	$43,460	$57,946	$72,433
9%	$15,193	$30,386	$45,579	$60,772	$75,965
10%	$15,937	$31,875	$47,812	$63,750	$79,687
11%	$16,722	$33,444	$50,166	$66,888	$83,610
12%	$17,549	$35,097	$52,646	$70,195	$87,744
13%	$18,420	$36,839	$55,259	$73,679	$92,099
14%	$19,337	$38,675	$58,012	$77,349	$96,686
15%	$20,304	$40,607	$60,911	$81,215	$101,519

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The Magic of Compound Returns

How Much Will You Have By Saving or Investing Annually for 20 Years?

Interest Rate on Savings or Rate of Return on Investments	Savings Amount per Year				
	$1,000	$2,000	$3,000	$4,000	$5,000
1%	$22,019	$44,038	$66,057	$88,076	$110,095
2%	$24,297	$48,595	$72,892	$97,189	$121,487
3%	$26,870	$53,741	$80,611	$107,481	$134,352
4%	$29,778	$59,556	$89,334	$119,112	$148,890
5%	$33,066	$66,132	$99,198	$132,264	$165,330
6%	$36,786	$73,571	$110,357	$147,142	$183,928
7%	$40,995	$81,991	$122,986	$163,982	$204,977
8%	$45,762	$91,524	$137,286	$183,048	$228,810
9%	$51,160	$102,320	$153,480	$204,640	$255,801
10%	$57,275	$114,550	$171,825	$229,100	$286,375
11%	$64,203	$128,406	$192,608	$256,811	$321,014
12%	$72,052	$144,105	$216,157	$288,210	$360,262
13%	$80,947	$161,894	$242,840	$323,787	$404,734
14%	$91,025	$182,050	$273,075	$364,100	$455,125
15%	$102,444	$204,887	$307,331	$409,774	$512,218

How Much Will You Have By Saving or Investing Annually for 40 Years?

Interest Rate on Savings or Rate of Return on Investments	Savings Amount per Year				
	$1,000	$2,000	$3,000	$4,000	$5,000
1%	$48,886	$97,773	$146,659	$195,545	$244,432
2%	$60,402	$120,804	$181,206	$241,608	$302,010
3%	$75,401	$150,803	$226,204	$301,605	$377,006
4%	$95,026	$190,051	$285,077	$380,102	$475,128
5%	$120,800	$241,600	$362,399	$483,199	$603,999
6%	$154,762	$309,524	$464,286	$619,048	$773,810
7%	$199,635	$399,270	$598,905	$798,540	$998,176
8%	$259,057	$518,113	$777,170	$1,036,226	$1,295,283
9%	$337,882	$675,765	$1,013,647	$1,351,530	$1,689,412
10%	$442,593	$885,185	$1,327,778	$1,770,370	$2,212,963
11%	$581,826	$1,163,652	$1,745,478	$2,327,304	$2,909,130
12%	$767,091	$1,534,183	$2,301,274	$3,068,366	$3,835,457
13%	$1,013,704	$2,027,408	$3,041,113	$4,054,817	$5,068,521
14%	$1,342,025	$2,684,050	$4,026,075	$5,368,100	$6,710,125
15%	$1,779,090	$3,558,181	$5,337,271	$7,116,361	$8,895,452

The Magic of Compound Returns

Quiz Question on Compound Returns:

- Under which of the following scenarios will you have more money saved when you turn 65?

(A) Investing $100 per month from age 25-35 (and then nothing from 35-65)

(B) Investing $100 per month from age 35-65 (but nothing from 25-35)

The Magic of Compound Returns

Quiz Question on Compound Returns:

- Under which of the following scenarios will you have more money saved when you turn 65?

(A) Investing $100 per month from age 25-35 (and then nothing from 35-65)
With an 8% return, you will have $185,000 accumulated at 65.

(B) Investing $100 per month from age 35-65 (but nothing from 25-35)
With an 8% return, you will have $150,000 accumulated at 65.

Note: If the returns on your investments are less than 6%, (B) will lead to greater wealth.

There’s a similar but different problem on page 37 of your handbook.

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Review: A Few Rules About INVESTING

- **Investing lets COMPOUND INTEREST be your friend.**

  - With compound interest, your interest earns interest.
  - Without actively making decisions, your money can grow exponentially.

  - Yes, there is risk – the exponential growth rate could be negative.
  - Such risk is greatest if you ‘invest’ over very short periods of time.
  - Historically, over the past 100+ years, if you invest for 5+ years, you have benefited from positive exponential growth.
  - The average return of a common stock over the past 100 years is 10%.
    - The word ’average’ is very important here. But, the good news, we can all achieve ‘average’ returns relatively easily (though they may not be 10% in the future)

Review: A Few Rules About INVESTING

- Investing lets COMPOUND INTEREST be your friend
  - W
  - W
  - Ye
  - Su
  - H
    be
  - Th

Not to be too esoteric or philosophical…
But compound interest doesn't just apply to investing.

Compound interest applies to all aspects of college life:

- **Time Management**
- **Mental Health**
- **Health Management**
- **Writing Skills**
- **Relationships**
- **And…Of course, Money Management**

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Investing – Some Perspective

- I am biased because I am a finance professor. I study investing and I teach investing. My perspective on risk may be meaningless to you.
- Do not take my advice on what level of risk you should take. Be thoughtful, be prudent.
- Avoid doing things that you know are stupid and that you know will cause you stress.
- But don't be afraid of taking risks just because they scare you. You have already taken many, many risks in your life. Taking informed and measured risks will continue to open many doors and opportunities for you – in both your personal and financial lives.

A Few Opening Morals

SAVINGS

INVESTING

OWNERSHIP

WEALTH

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Common Questions about Investing & Saving

How can I save when my income is so low as a student?

My problem isn't budgeting but it's having too little income.

- Your short-term priorities while in grad school need to be your education, your family and your mental health.
- Maybe saving cannot be a priority for you while you're in school.
- The goal is to develop habits and a mindset that will prepare you to maximize the benefits of saving when your income allows you to do so. Be patient. The benefits of good habits will grow exponentially.

Common Questions about Investing & Saving

How can I save when my income is so low as a student?

My problem isn’t budgeting but it’s having too little income.

- And think of ways to generate more money: gigs, internships, tutor, lab assistant, freelance positions, blogger, podcasts, consulting
  - Create new jobs for yourself: maybe sell your skills in social media marketing to a company you want to work for, regardless of your program
- A lot of the advice we think of in budgeting is about “reducing expenses.” And that’s because we generally have more control over our expenses than we do over our income, at least in the short-term. Do what you can.
  - And, decreasing expenses can feel like an increase income. Same same.

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Common Questions about Investing & Saving

How much of my income should I be <u>saving</u> each month?

- Only you can answer this. Nobody can answer it for you.
- It depends on:
  - What your goals are, both short- and medium-term.
  - What your immediate expenses are.
- I frequently advise students to save $25 of every paycheck ***as soon as they receive each paycheck***. Save or set aside as much as you can.
  - When I was getting my Master degree, I had no income. I was living off a little savings and a lot of debt. But I intentionally saved $10 to $25 on the first day of each month…simply to develop the habit.
  - In school, the habit is more important than the amount.

Common Questions about Investing & Saving

How much of my income should I be saving each month?

My challenge to you:

Take $10 of every paycheck and move it into a savings account.
If you can save more, do it.

But at a minimum, save $10 of every paycheck to develop the habit.

My advanced challenge to you:

Take half of what you save each month and invest it in the stock market.

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Common Questions about Investing & Saving

How do I save for a big purchase – house, car, etc…?

- Stary by asking yourself a few questions:
  - How much do I need to save?
  - When am I going to make this purchase?
  - Is this essential or discretionary? (A refrigerator or car vs. a vacation)

- These questions will help identify timing and priority.
  - Knowing timing & priority will help determine how you save.
    - Do you use a bank savings account or do you have time to invest in the stock market?

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Common Questions about Investing & Saving

How do I save for a big purchase – house, car, etc…?

- I would explicitly allocate some of my monthly savings to this purchase.
  - I have already penciled in my holiday gift purchases – even though I won't make them for 2 months.
- We will talk about my 5 buckets for saving-investing in a few slides.
- If it's a really big purchase (e.g. house), you could even set up a dedicated saving or investing account just for that purchase.

MONTHLY BUDGET	EXAMPLE	THIS MONTH
INCOME		
Job #1 -	$ 1,200.00	
Job #2 -	250.00	
Job #2 -	100.00	
Other -	50.00	
Other -	-	
Other -	-	
TOTAL INCOME	**$ 1,600.00**	
EXPENSES		
Savings - General	$ 50.00	
Savings - New Car, in 2023	125.00	
Savings - New House, in 2026	250.00	
Rent or Housing	400.00	
School - Tuition & Fees	150.00	
School Supplies	50.00	
Phone Bill	100.00	
Insurance - Car	100.00	
Insurance - Home	25.00	
Insurance - Health	-	
Food - Grocery	200.00	
Food - Restaurants	50.00	

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Common Questions about Investing & Saving

How do I save for a big purchase – house, car, etc…?

- I would explicitly allocate some of my monthly savings to this purchase.

es –

These budgeting templates are in the handbook on pages 24-25.
You can download them from the MCOBA website, search for "Personal Financial Planning."

Or you can email me and I will send them to you.

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  ir
- If
  could even set up a dedicated saving or investing account just for that purchase.

MONTHLY BUDGET	EXAMPLE	THIS MONTH
INCOME		
Job #1 -	$ 1,200.00	
Job #2 -	250.00	
Job #2 -	100.00	
Other -	50.00	
Other -	-	
Other -	-	
TOTAL INCOME	**$ 1,600.00**	
EXPENSES		
Savings - General	$ 50.00	
Savings - New Car, in 2023	125.00	
Savings - New House, in 2026	250.00	
Rent or Housing	400.00	
School - Tuition & Fees	150.00	
School Supplies	50.00	
Phone Bill	100.00	
Insurance - Car	100.00	
Insurance - Home	25.00	
Insurance - Health	-	
Food - Grocery	200.00	
Food - Restaurants	50.00	

Common Questions about Investing & Saving

How much of my income should I be <u>investing</u> each month?

- Again, only you can answer this. Nobody can answer this for you.
- Your goals, values and resources are unique to you…and only you.
- You may read reports about how much you should have saved by a certain age or whatever.
  - It's okay to read those, but be sure to put them into your own perspective.
  - Those articles do not know what your goals are, do not know that you are in graduate school and do not know what your future plans are.
  - It is important to have a plan – but it is critical that that plan is unique to you and your situation.

Common Questions about Investing & Saving

What is a useful way to use different accounts to achieve different goals?

Me? I have 4-5 bank and investing accounts.

1. A basic checking & transactions account. My paycheck is deposited here. And all bills are paid out of this account.
2. A savings account. This is dedicated to short-to-medium term goals, such as paying down debt or paying for a vacation.
3. An investment account. This is dedicated to long term goals, such as buying a house, children’s education or even retirement.
4. And 2 retirement accounts: 1 through work and 1 that I manage outside of my work retirement account.

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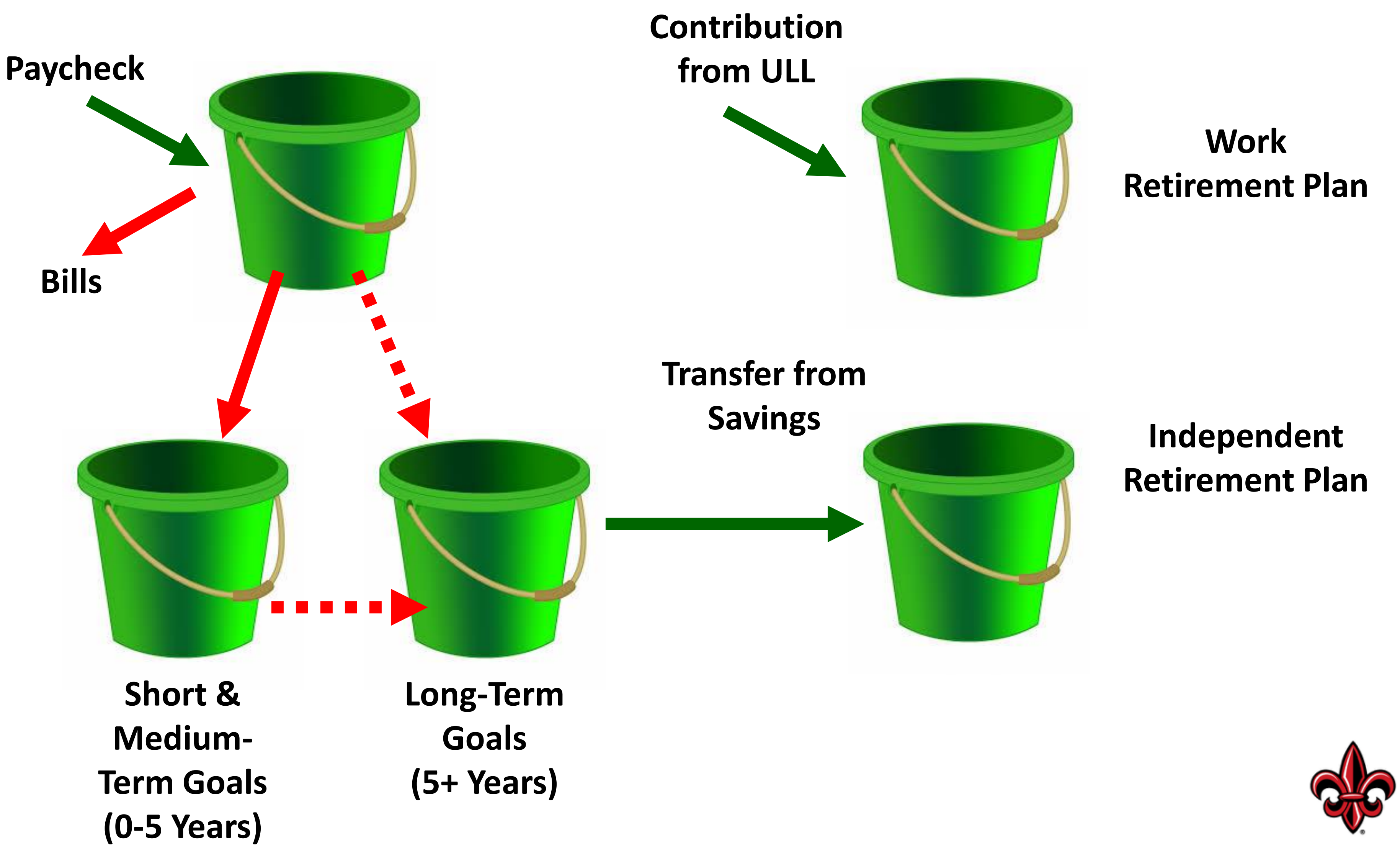
Common Questions about Investing & Saving



Common Questions about Investing & Saving

What is a useful way to use different accounts to achieve different goals?

I have 4-5 bank and investing accounts.

Why does this work?

Research has found that humans engage in “mental budgeting.”

Imagine that you have $10,000.

You might manage (or spend) this $10,000 differently if you have it one account for “My Money” versus having $2,000 in a checking account + $8,000 in different savings & investment accounts.

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Common Questions about Investing & Saving

Why does this work?

- Because it allows me to align different goals with different accounts.

Checking & Transaction Account

**No risk,
0.0% return,
all cash**

Short-to-Medium Term Goals

**Some risk,
0-3% return goals,
cash + savings**

Long-Term Goals

**Some Risk,
3-7% return goals,
savings + investments**

Retirement Accounts

**Lots of risk,
8-12% return goals,
all investments**

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Owning Your Financial Future

YOUR VALUES

YOUR GOALS

Education | Career | Family

FINANCIAL STRATEGIES

Investing | Income & Expense Management | Debt Management | Taxes, Insurance & Other

One Rule About BUDGETING

Budgeting is philosophically very easy but practically very difficult because there is just one basic rule that applies to Budgeting:

Spend less than you earn.

- Of course, this is much easier said than done…Especially for students with limited income and fixed expenses.
- If you spend more than you earn, you have to make up the difference somehow - student loans, credit cards, savings.
  - And this borrowing will set your goals back when it comes time to repay this borrowing. You are borrowing from your future.

How Do You Succeed at Budgeting

- Be intentional. Know what you’re spending. Know what your income is.
- Look in the mirror. Analyze yourself.
  - This can be painful. You may see some habits you do not like. But recognizing those habits is the first step to correcting them.
- Think both short-term and long-term.
  - At its core, budgeting is about balancing monthly income and expenses.
  - But, be sure to connect your income and expenses to your long-term goals.

- When I was in grad school, my priority was my degree. I ate more Top Ramen than any human should ever eat (including every night for a month, as part of a bet). To me, this was a choice and a habit that was critical to fulfilling my goal – my degree.

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How Do You Succeed at Budgeting

I do not want all of my life to be controlled by a budget.

I simply want my budget to be functional.

~ Quote from one of your student colleagues this summer

How Do You Succeed at Budgeting

I simply want my budget to be functional.

- You want a budget to be a guide, not a rulebook.
- You want a budget that is designed for you and nobody else.
- You want to identify what is most important to you.
  - Yes, you may have to change behavior and make sacrifices – so make sure you are only sacrificing those expenses or parts of your financial life that are least important to you.

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Owning Your Financial Future

Turn to page 22 in the handbook.

There are 42 suggestions for ways to save money on page 22.

How many of these could you do over the next 3 months?

Are there any other ideas you have that should be on this list?

Owning Your Financial Future

Turn to page 22 in the handbook.

How many of these could you do over the next 3 months?

Move to a better bank account
Give up your television
Give up a subscription
Sign up for free customer loyalty programs
Always make a shopping list
Stop eating out
Shop at a thrift store
Shop at a yard sale
Stop buying new video games
Cut your coffee purchases in half
Drink more water
Avoid convenience stores
Avoid fast food
Avoid alcohol

Quit smoking
Buy food and staples in bulk
Make a gift for friend or family member
No online purchases
Cancel unused memberships
Share your dreams with a close friend
Shop for new car insurance
Spend your free time volunteering
Avoid the mall
Only walk to places within 1 mile
Cancel magazine subscriptions
Eat breakfast
Eat leftovers
Bring your lunch to work or school

Only go to free entertainment events
Take public transportation
Carpool
Pack food for road trips
Eliminate cell phone services
Eliminate cable services
Spend 10 hours a week at the library
Learn about employee offers at work
Only drive within 3 MPH of the speed limit
Drive a different route to work
Eat less meat
Use coupons
Exercise more
Pay bills online through your bank

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Owning Your Financial Future

Turn to page 22 in the handbook.

How many of these could you do over the next 3 months?

Move to a better bank account
Give up your television
Give up a su
Sign up for free custo
Always make a
Stop ea
Shop at a t
Shop at a
Stop buying ne
Cut your coffee p
Drink mo
Avoid convenience stores
Avoid fast food
Avoid alcohol

Quit smoking
Buy food and staples in bulk
Eat breakfast
Eat leftovers
Bring your lunch to work or school

Only go to free entertainment events
Take public transportation
l
ad trips
e services
services
at the library
offers at work
of the speed limit
ute to work
eat
Use coupons
Exercise more
Pay bills online through your bank

Focus on habits, not just dollars.

While you're in college, while you're in LEP, many of these ideas may not help you – such as eating leftovers.

But if you develop the mindset now, the benefits will grow and compound and lead to real dollar savings (or income) when you are on your own and paying for your own meals.

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Five Budgeting Models

ZERO-BASED BUDGETING

- Start with your total income, either actual or expected.
- Then allocate every single dollar to some purpose.
  - Essential expenses such as rent, food and phone are easy.
  - Include savings, debt repayment, insurance and investments.
- Your Net Cash Flow – or Income minus Expenses – will always be $0.00 because every penny has been assigned to a specific expense or purpose.

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Five Budgeting Models

THE ENVELOPE METHOD

- Identify your main expense categories – food, bills, entertainment, rent, and others.
- Pretend that you put money for each category into its own envelope. If it helps, actually put the cash for each category into an envelope.
- The amount that each category has in its envelope is the maximum you can spend for each category during each period.
- You cannot spend more than what's in an envelope. Once an envelope is empty, you cannot spend any more on that category.
- If you spend less than what's in an envelope, you cannot move or loan funds to another envelope.
- If you have money left in any envelopes at the end of the month, put it into savings. Do not carry it over to the next month.

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Five Budgeting Models

50 / 30 / 20 METHOD

- This is similar to the Envelope Method but with broader categories.
- Allocate 50% of your income to "needs."
- Allocate 30% of your income to "wants."
- Allocate 20% of your income to savings and debt repayment.
- This may be a difficult method while you're still in school and income is low, but it can be a great method after you graduate to take you through your 20s.

Five Budgeting Models

PAY YOURSELF FIRST

- This is essentially a reverse budget – where the first item you consider is savings.
- Pick a number that you want to save each month – and then as soon as you get paid, move that amount into your savings account or into investments….pay your future self first.
- Then you can apply one of the other methods for the balance of your budget.
  - You could employ a 20 / 50 / 30 budget, where you start with the 20% being moved to savings, then budgeting for needs and wants.
  - You could move all non-savings funds into their own envelopes – then, at the end of the month, with any remaining cash in envelopes, move that to savings. You may end up moving money to savings twice each month – which is great.
  - You could create a zero-based budget on top of your savings. Again, you might have one line-item devoted to savings here, too, and you could end up saving twice.

Five Budgeting Models

THE VALUES-BASED BUDGET

- You first allocate a portion to your essentials: food, rent, phone.
- Then you allocate your income to different values that are important to you: charity, family, friends, health, education, well-being, your future and others.
- This could be coupled with the Envelope, Zero-Based or 50 / 30 / 20 methods, such that your values define the categories. Your values become both "needs" and "wants."
- Be sure to include "your future" as a value – that's where you'll do your saving to help you meet your personal and financial goals.

Five Budgeting Models

Which Budget Model is Best For You?

Only you can answer that.

Budgeting is more of a mental game than a financial process.
You need to select the approach that:

(1) Gives you the least stress and the most confidence;

(2) Best aligns with your short- and long-term goals.

In practice, most people combine different models to best suit what they are most comfortable with.
(I personally pay myself first and then use a zero-based approach)

(And then, if I can, I pay myself last, too)

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Developing A Budgeting Mindset

Budgeting is more of a mental game than a financial process.

- Think of budgeting as part of a long-term financial plan.
- Think of budgeting in the same way you think of studying, writing or working in the laboratory.
- Recognize your own behavior, habits, priorities and goals. Only you know what is best for you. Choose the budgeting approach that works best for you…and for you only.

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Developing A Budgeting Mindset

If you have a spouse, partner, family or others who are affected by your budgeting decisions….

….Talk to them. Make budgeting a team effort.

- Research on personal finance shows that couples feel more empowered and develop a closer, stronger relationship when they share financial goals, decisions and strategies with each other.
- Your pets may be affected by your budgeting decisions. But you don't have to communicate with them. They don't want to be bothered with budgeting decisions. They have other priorities.

Developing A Budgeting Mindset

Some exercises to help you develop a budgeting mindset.

- Track all of your income and expenses – every penny – over an extended period of time (say, 1-2 months).
- Write down the last 15 things you spent money on.
- Write down the next 15 things you want to spend money on.
- Identify your 10 biggest expenses over the past 12 months.
- Predict every dollar of income you will earn over the next 12 months.
- Predict what your income will be for each of the next 5 years.

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Developing A Budgeting Mindset

Some exercises to help you develop a budgeting mindset

What is the purpose of this self-analysis?

To ensure that your spending is aligned with your income.
To ensure that your spending and income are part of your plan.
To ensure your budget is driven by wants & needs, and not driven by impulses.
To be intentional.

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Developing A Budgeting Mindset

Some actions that may help you better control your spending:

- Wait 24 hours before making any purchase over a certain dollar amount
  - For me, it's $100. I don't make any purchase of more than $100 without thinking about it for 24 hours (except groceries).
- Don't make any purchases on certain days or after a certain time
  - For me it's 9:00pm. I do not spend any money after 9:00pm. Ever.
- Only use cash…because studies have found that spending cash causes us more pain than the abstraction of a credit card or debit card
  - It's also why casinos use similarly abstract poker chips…because we don't feel pain when we lose them.
- Take 10 minutes every Sunday to write down what you're allowed to spend in this week.

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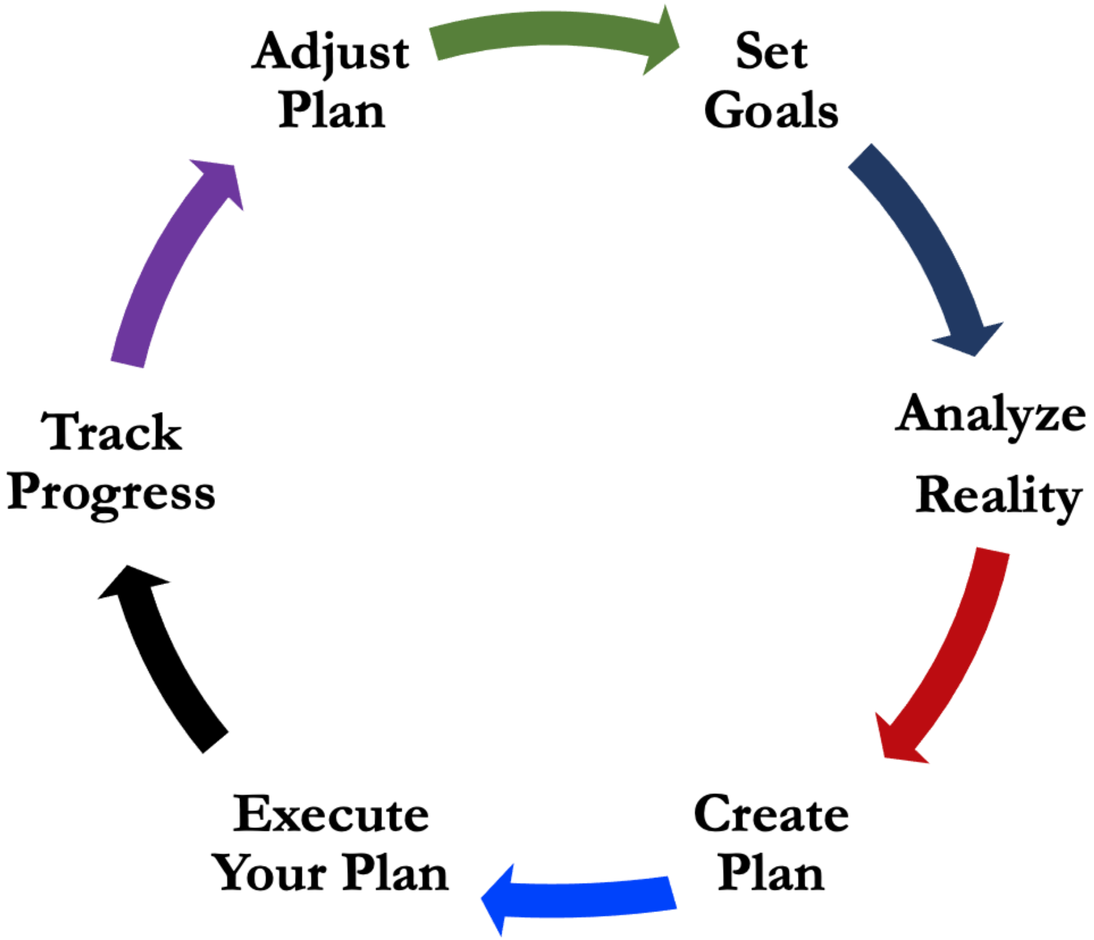
Developing A Budgeting Mindset

Some actions that may help you better control your spending:

And then reward yourself.

Turn this into a game.
If you predict you will spend $200 this week, and you only spend $150, reward yourself with half the difference.
Take $25 for happy hour or a night out.
Put the other $25 into savings or investing.

- Wa … nt
  - … hours
- Do…
  - …
- Onl… …us mo…
  - … them.
- Take … pend in this week.



1. **Set your goals.** What do you want to achieve in life? What financial goals will make this happen?
2. **Analyze your reality.** What is your situation? What is your income? What are your expenses? When can you achieve your goals?
3. **Create your plan.** Focus on the short-term – the next 3-6 months – and the long-term – the next 1, 2, 5 and 10 years.
4. **Execute your plan.** Work to decrease your expenses. and to pay off debt. Work to increase your income and your savings.
5. **Track your progress.** How are you doing? Are you ahead of your goals? Are you behind your goals?
6. **Adjust your plan** to reflect your progress, your new reality and any new goals.
7. **Repeat. Revise. Enjoy.**

Isn’t this a lot like what you do with your education planning?

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Some Parting Words

- Nothing in finance is free. Do not think some institution is giving you a super deal just because they like you. There will be costs.

- Investment companies work really hard to get your money. They hire psychologists to figure out how to get you addicted to your products. Your money pays for their commercials, buildings, fancy cars and vacation homes.

- I check my bank, savings & investment accounts daily. I do not make changes daily (or even monthly). I just don’t want any surprises.

Some Parting Words

- If you ever invest based on personal relationships, be prepared for losses.

- Nobody – NOBODY – can predict the future. And investing is all about predicting the future. Be careful about thinking you can predict the future. Make sure your investments align with your goals.

- Be your own boss. Take control of your money and your investments. Nobody else is going to do it for you. Own your financial future.

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